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# **CONSULTING REPORT**

Prepared for: Aritzia

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## 1. Background:

Aritzia Inc. is a Canadian women's fashion brand founded in Vancouver, British Columbia in 1984, by Brian Hill who is the founder as well as the CEO. Its primary demographic target are women between the ages of 15 to 30 looking for high-quality and fashionable clothing. Aritzia primarily sells in-house brands, such as Wilfred, TNA, Babaton, Sunday Best, Main Character, and Community. In November 2012, the company launched its e-commerce site, aritzia.com which saw great financial success. As of January 2020, Aritzia operates 67 stores in North America; 29 boutiques are located in Canada.

## 2. Context:

Brian Hill, CEO of Aritzia and its executive leadership team has appointed ABS-ORB to conduct an independent review of their strategy in response to the first wave of the COVID-19 pandemic in early 2020. With the development of the vaccine and the market restabilizing, the leadership team desires as much clarity as possible to decide how to move forward during this crisis and continue to achieve its growth plans.

One of the main requests on their behalf is to gain an understanding of their Customer Value Proposition (CVP) and if/how it had changed during the pandemic and how they could maintain this value proposition amidst all the uncertainties in their operating environment.

Finally, they require advice on how they could continue to manage the expectations of their stakeholders and also communicate regularly with them.

### 3. Scope and Approach:

The demands of the client will be analyzed in detail to see how this drives the various elements in the scope of the consultants' (ABS-ORB) work. This is followed by a more detailed analysis of the client and the business and market environment within which it operates.

An independent assessment of Aritzia's value drivers and key reasons for their success will be conducted and finally, recommendations will be provided to Aritzia to address the challenges presented by the pandemic and maximize their future opportunities. They will also be advised on how to manage their key stakeholders by formulating a strategy and also implementing it.

### 4. Is Aritzia an Entrepreneurial Business?

Entrepreneurship is launching, developing and running a business venture along with its financial risk. These ventures are valuable for economic development of a firm as it allows it to expand its business and resources in the global market. Entrepreneurial businesses are firms that manage risk and mobilize resources effectively to adapt to the changes in the market environment and stay competitive (Haltiwanger, J. et al., 2017).

A SWOT analysis for Aritzia, table 1, illustrates how the company reflects the above-mentioned entrepreneurial aspects in its choices and actions.

|  |   |
|--|---|
| <b>Strengths</b> <ol style="list-style-type: none"> <li>1) Vertically Integrated business model</li> <li>2) Accelerating e-Commerce business</li> <li>3) Brand heritage and loyal customers</li> <li>4) Product Innovation and expansion</li> <li>5) Products are put through the O-LC assessment for sustainability</li> <li>6) Experienced and talented management team</li> </ol> | <b>Weaknesses</b> <ol style="list-style-type: none"> <li>1) Business is highly dependent on timely import of raw materials from foreign countries</li> <li>2) Limited customer base due to highly priced products</li> </ol>  |
| <b>Opportunities</b> <ol style="list-style-type: none"> <li>1) Growth in e-commerce market</li> <li>2) Omnichannel expansion across Canada, U.S. and Internationally</li> <li>3) Building partnerships and enhancing the company's ecosystem</li> <li>4) Building brand awareness</li> </ol>   | <b>Threats</b> <ol style="list-style-type: none"> <li>1) Ongoing pandemic has forced the company to close all its boutiques temporarily</li> <li>2) Highly competitive market with many new entrants</li> <li>3) Sales in fashion retail industry is highly seasonal</li> </ol> |

Diagram 1: SWOT Analysis of Aritzia

Aritzia is a company which has found a gap in the fashion retail industry and has secured its place as a key player for over 35 years. This has been possible only due to the innovative spirit of its executives and employees. It's driven to expand its presence both physically and in the online market. This is more than sufficient to consider Aritzia as entrepreneurial.

## 5. Aritzia and the Market Environment

On March 11, 2020, the World Health Organization officially declared COVID-19 to be a global pandemic. This has forced many Western countries to restrict movement and contact by introducing lockdowns and halting international travel. In light of increasing calls for social distancing and restrictions on movement, retail companies were forced to close their physical stores and corporate offices to reduce the spread of the virus (Salemohamed, A. et al., 2021).

This has severely affected the fashion retail industry as well. The pandemic has disrupted global supply chains which is very problematic for fashion brands that heavily relied on partners in countries like China and India for textile manufacturing and fashion production. A study by McKinsey & Company estimated that 75 per cent of publicly traded apparel and fashion companies in North America would see negative earnings before interest, taxes, depreciation, and amortization levels coupled with potentially unmanageable levels of debt. Aritzia was also not safe from the pandemic either and experienced financial losses initially. This was mainly due to the closing of all its boutiques in Canada and the United States which was its primary source of sales contributing around 77 per cent prior to the pandemic. (Salemohamed, A. et al., 2021).

Even though COVID-19 mostly impacted negatively on the fashion industry, ecommerce fashion brands can benefit greatly due to the general public not able to go out and purchase said products in person and Aritzia can take full advantage of this opportunity as the company can easily adjust its product, marketing and operational strategies to drive its ecommerce sales.

## 6. Analysis of Aritzia's Core Competencies:

Core competencies are areas of deep proficiency that can help distinguish a company from its competitors because they are hard for competitors to copy or procure. It embodies an organization's collective learning, particularly of how to coordinate diverse production skills and integrate multiple technologies (Bain, 2018).

### a) Multi-brand Portfolio:

A vertically integrated business model, and a unique product line helped the company establish a collection of in-house clothing lines like Babaton, TNA, Wilfred, Community etc. which was treated as its own independent label, with its own vision and a dedicated in-house design team.

b) Strategic position in the global fashion landscape:

By focusing solely on the sale of high quality, fashionable clothing specifically for women between the ages of 15 and 30, Aritzia has created a new segment within the global fashion landscape called “Everyday Luxury” placing it between the mid-market and the sub-luxury market ensuring both high quality and affordability in the process.

c) Personalized and knowledgeable client service:

Aritzia have built each of its boutiques with its own design, integrating fashion, art, magazines, and curated music to create a distinctive environment for the customers. The firm further focused on customer service by offering product recommendations and styling advice from well-trained store representatives known as style advisors.

d) Elevated Omnichannel shopping experience:

Aritzia offers products to their clients through a seamless omni-channel approach and provide them with an aspirational shopping experience in their premier real estate locations and their ecommerce website, [aritzia.com](https://aritzia.com). This was further enhanced from the launch of their Clientele Application, a digital selling tool used by style advisors across the company’s boutique network to connect with customers.

## 7. Aritzia’s Customer Value Proposition:

A customer value proposition is part of a company’s overall marketing strategy. The value proposition provides a declaration of intent or a statement that introduces a company’s brand to consumers by telling them what the company stands for, how it operates and why it deserves their business. A value proposition clearly explains how a product fills a need, communicates the specifics of its added benefit, and states the reason why it's better than similar products on the market. (Investopedia, 2022).

A Customer Value Proposition for Aritzia is created below to analyze the key reasons for its success:

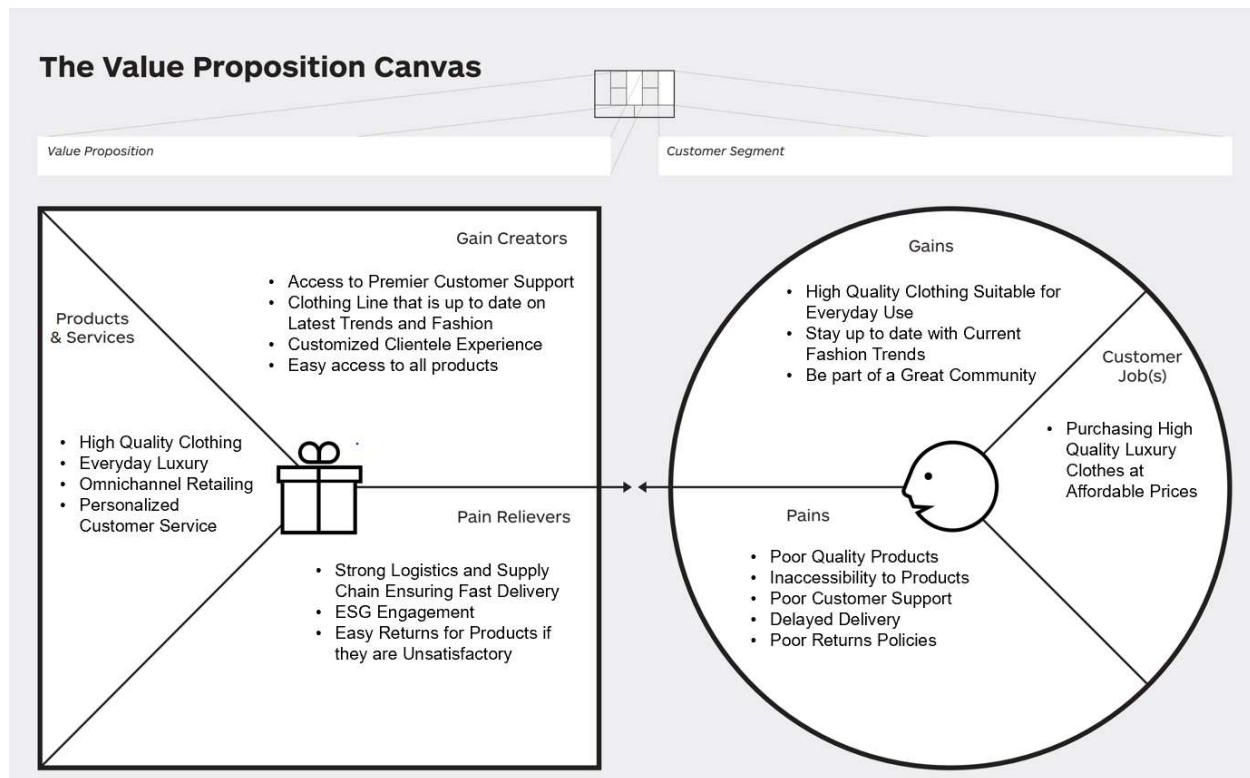


Diagram 2: Aritzia's Customer Value Proposition Canvas

The analysis shows why Aritzia is still one of the key players in the fashion retail industry for over 35 years. It has found the right balance between product quality and price which they label as “Everyday Luxury”, a primary component of their value proposition. Its vertically integrated business model allows Aritzia to contract a diverse group of independent third-party mills, manufacturers and trim suppliers to produce its in-house clothing lines. In addition to these direct supplier relationships, the company has dedicated design and manufacturing teams to ensure that all their products are delivered on time and were of high quality.

One of the key elements of the company's marketing strategy are its boutiques which promoted Aritzia's culture and brand to customers. As such, the company is very selective when it comes to new locations. These boutiques offered customers style advice and great post purchase support making it a great shopping experience.

Its e-commerce platform is designed to offer an integrated experience so that customers can the same level of service as they did in-store. Aritzia's e-commerce efforts were



supported by the company's recent investments in distribution which resulted in an 80 per cent increase over their previous distribution capabilities.

Aritzia's endurance to crisis has been proven by its response to the COVID-19 pandemic. Having forced to temporarily close all of its boutique retail stores, Aritzia shifted all its sales volume to its e-commerce website. This has mitigated their losses to a certain extent during the early days of lockdown.

One of Aritzia's key value propositions involved the experience it provided for its consumers and maintaining a strong culture within the company and local communities. This was done by keeping an open channel about the company's' activities through statements on its website and social media, recognizing the impact of the pandemic on the communities and sharing plans to keep its employees safe and financially secure.

Several relief funds such as the Community Relief Fund and the Community Care Program were initiated by the company which enabled them to retain all of its employees and support its local communities as well. Finally, one of the strongest value drivers of the company are its highly experienced and talented management team and its loyal customers who has stemmed part of the company's culture.

To maintain this value proposition amidst all the uncertainties in their operating environment and achieve its future growth plans, ABS-ORB has formulated a number of recommendations for the next section.

## 8. Recommendations:

This section is divided into two parts, one which discusses how Aritzia should act in response to the pandemic and the other provides advice on how they can improve and expand their business in the future.

### 8.1 Recommendations for the COVID-19 Pandemic:

#### a) Investing Heavily into E-Commerce and Related Technology:

We recommend Aritzia to divert all its attention and resources into its e-commerce platform until the lockdowns are removed and it's safe to conduct business in the boutiques. Strategic sale events can be conducted through the e-commerce channel which can make significant contributions to the company's revenue. Steps need to be taken to augment and optimize both the consumer's shopping experience and its internal operations.

The online experience of customers can be enhanced using Artificial Intelligence which can recommend products for the customers. Furthermore, Aritzia can implement Augmented Reality technology into their mobile app and website which enables the customer to virtually try out clothing. ABS-ORB recommends partnering with Anthropic Technology Ltd, a company which has created an incredible Augmented Reality app for clothing called Zyler [[www.zyler.com](http://www.zyler.com)]. Using this technology, the customer can virtually try out as many outfits as they want at the safety of their own home, making this perfect for the current situation. This can be implemented only if Aritzia has a great team of front-end and back-end developers who will be responsible for designing and reworking the app and website to accommodate these new technologies.

Finally, as the primary mode of sale will be through e-commerce, there is bound to be a surge in the number of users on the website and application. Aritzia needs to make sure that its e-commerce platform can handle such levels of activity and the distribution centers and concierge teams need to effectively manage the surge in e-commerce volumes while maintaining delivery times to meet or exceed client's expectations.

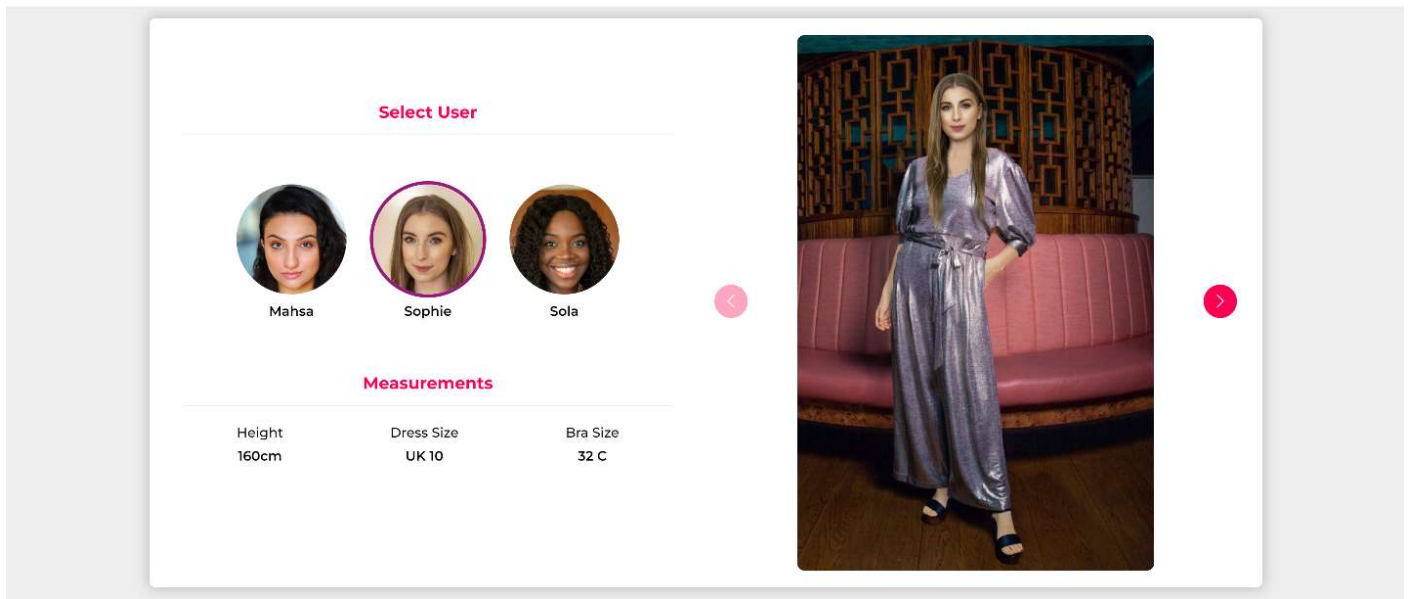


Figure 1: Implementation of Augmented Reality for Clothing (Source: zyler.com)

#### b) Focusing Attention into the Sale of Loungewear:

The lockdowns in response to the pandemic has forced everyone who can work remotely to stay at home and this is a perfect opportunity for Aritzia to pivot its attention to the sale of loungewear. Forecasts suggest that the pandemic is here to stay for a year at least and that means people cannot go out unnecessarily which means the sales of normal clothing will definitely take a hit.

Since young women in education are mainly taking online classes and the adult women working from home, it is in Aritzia's best interest to market its customers about its line of loungewear as they will be in high demand soon (Settembre, J., 2020).

#### c) Post-Lockdown Precautions:

Aritzia should slowly and cautiously reopen its boutiques in accordance with the guidelines provided by the federal, provincial and municipal authorities and avoid any risk to its brand by treating safety as a priority for both customers and its employees. Even after the lockdown, it would be best if masks are made mandatory in the boutiques and social distancing norms are followed.

Regular testing must be done for the employees and temperature checks on customers. The customers should be encouraged to use Aritzia's online portal to shop if the boutique gains too much traffic and use the Clientele app for fashion advice.

## 8.2 Recommendations for Future Growth of the Company:

### a) Recognizing the importance of ESG for the future of the company and the planet:

The demand for sustainable investing is accelerating and huge amounts of managed funds are explicitly invested based on environmental, social and governance (ESG) criteria. The pandemic has made ESG even more of an important subject as it is not only a way to do well but also a way to mitigate risk in the long term.

"Globally, sustainable funds based on ESG themes pulled in a record-breaking \$20.6 billion of new money in 2019 – almost four times the 2018 figure of \$5.5 billion, itself a record and Morgan Stanley's 2019 Sustainable Signals survey found that around 85 per cent of investors are interested in sustainable investing, up from 71 per cent in 2015." (Financial Times ,2020).

Aritzia should no longer just advance only the interests of the shareholders, but must also invest in their employees, protect the environment and deal ethically with suppliers.

ESG governance should reside at the highest levels of the organization, across all division through carefully designed programs and corporate policies. ESG risks need to be incorporated within the wider enterprise risk management framework and internal KPI's need to be established in line with strategic priorities to measure progress.

### b) Investing in Brand Awareness and Customer Expansion:

Aritzia needs to invest heavily in improving their social media outreach and digital marketing capabilities. With the current online environment offering compelling opportunities, the company needs to launch paid media pilots and recruit talented online influencers focused on client acquisition.

Contracting a brand ambassador will be greatly beneficial for Aritzia. Celebrities can strongly influence customer preferences and can even start fashion trends, an example for this is the success of Aritzia's Super Puff™ clothing line which is highly preferred by mega celebrities like Kendall Jenner, Emma Roberts & Jeneffer Lopez (Medium, 2019).

c) Introduce a Loyalty Program:

Unlike most popular fashion brands, Aritzia does not have a loyalty program and ABS-ORB believes that the time is ripe to develop one. A well thought out loyalty program can help Aritzia retain customers and drive up its sale at the same time.

Instead of using a tried and tested loyalty program formula, Aritzia can try to using a more aggressive stance on the matter. ABS-ORB has devised a loyalty program inspired by the battle pass system which has been used in popular multiplayer video games for over a decade (*Battle pass – Wikipedia*, 2013).

Aritzia can introduce a “fashion pass” which is a subscription service cum loyalty program with a time-limited progression system. When a customer who is subscribed to the fashion pass purchases a product, they rack up points and gaining enough points would unlock various tiers within the fashion pass giving them access to purchase limited edition and exclusive products from Aritzia which cannot be bought from anywhere else other than the fashion pass . These points can otherwise be used in exchange for a discount for a future purchase or even be used to renew the subscription for the next season if they have accumulated enough points.

The fashion pass can also include perks like priority access to in house style advisors and free services like clothing alterations and customization making the program very enticing and worthwhile for the customer.

These are the main recommendations proposed by ABS-ORB and we firmly believe that its implementation along with maintaining Aritzia's current trajectory of growth and expansion would definitely provide the company with long term sustainability.

## 9. Stakeholder Management:

The various stakeholders of Aritzia can be mapped out using a Mendelow Matrix (Mendelow, 1991) which shows the level of influence and interest each stakeholder has over the company:

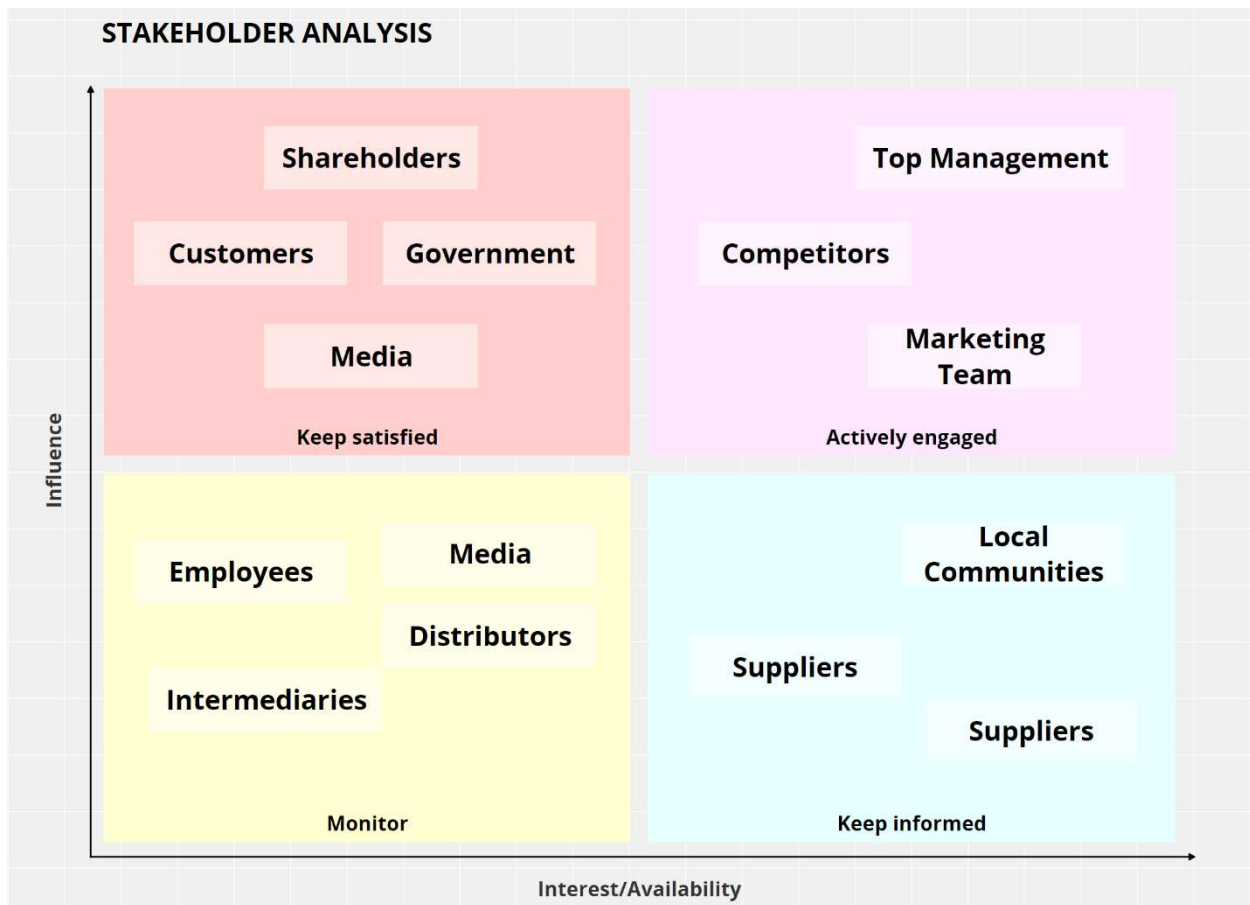


Diagram 3: Stakeholder Analysis for Aritzia

The best way to manage the expectations of stakeholders is by keeping an open channel about what Aritzia is currently doing. This can be through press releases, interviews, social media posts or even large scale corporate events. The yearly investor presentations can be made accessible to all stakeholders which can create a feeling of inclusivity for them.

Aritzia can manage the expectations of the major stakeholders by delivering on the promises that it has made and staying true to its core value of promoting “Everyday Luxury”. Focusing on Environmental, Social and Governance would prove beneficial for the company’s image and this would show the company’s commitment to the protection and restoration of the planet by reducing their impact on climate, water and biodiversity. This would be financially beneficial for the company’s investors as well as there has been a trend of rising investor favorability for companies with an ESG policy.

The company must make efforts in improving the lives of its employees by committing to their growth and development and promoting diversity, equity and inclusion.

Finally, the best way Aritzia can subvert stakeholder expectations is by constantly innovating and striving to evolve into an evergreen business.

## 10. Executive Summary:

This management consulting report analyses Aritzia Inc. to evaluate the company and assess their key value drivers. Recommendations were given for the company to help it survive and maximize their profits during the COVID -19 pandemic followed by advice on how to move forward.

After highlighting Aritzia's background, and stating the scope and approach used in the report, Aritzia's entrepreneurial status was evaluated by analyzing the company and its business environment. This is followed by an investigation of the company's core competencies and its customer value proposition. This gave an insight about the key reasons for the company's success and growth. In order for them to continue on this trajectory, recommendations were provided which would help them thrive in the competitive fashion industry amidst the pandemic. Furthermore, recommendations were given to push the company's business to the next level and how to manage their key stakeholders.



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